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State of California
Business, Transportation and Housing Agency

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August 8, 2003

Marlene S. Ma
Counsel
Kaiser Foundation Health Plan, Inc.
One Kaiser Plaza, 21-L
Oakland, CA 94612

RE: Arbitration Decisions
Enforcement Matter No. 03-085

LETTER OF AGREEMENT

Dear Ms. Ma:

The Department of Managed Health Care (hereinafter "the Department") has concluded its investigation of Kaiser Foundation Health Plan, Inc. (hereinafter "Kaiser") regarding arbitration decisions.

Pursuant to California Code of Regulations, title 28, section 1300.73.21(a)(1), health plans are required to submit complete arbitration decisions to the Department within thirty (30) days of receiving the decision. In addition, effective September 18, 2002, Section 1300.73.21(b) requires every written arbitration decision and settlement agreement to contain the following language in bold, twelve (12) point type:

Nothing in this arbitration decision (or settlement agreement) prohibits or restricts the enrollee from discussing or reporting the underlying facts, results, terms and conditions of this decision (or settlement agreement) to the Department of Managed Health Care.

Based on its review of arbitration decisions submitted by Kaiser since September 2002, the Department has determined that at least twelve (12) decisions were not timely filed within thirty (30) days. Kaiser acknowledged this technical deficiency. Kaiser has undertaken appropriate corrective action as follows: 1) Kaiser amended its prior administrative practice of submitting decisions on a monthly basis to a semimonthly basis so that no decision should fall outside the 30-day period; and 2) Kaiser made efforts to expedite receipt of decisions from outside defense counsel.

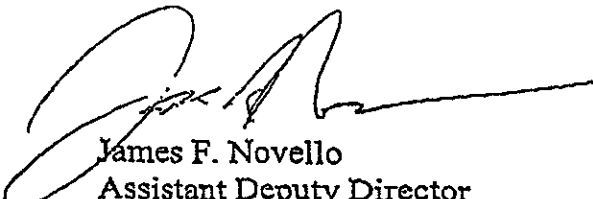
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With respect to the requisite DMHC disclaimer language, the Department determined that at least fifteen (15) original arbitration decisions omitted the language. The Department acknowledges that Kaiser subsequently submitted amended decisions that corrected this omission. Upon discovery of decisions omitting the DMHC disclaimer language, Kaiser promptly notified the respective arbitrators and requested the inclusion of the requisite disclaimer. By concurrently notifying the relevant claimants, Kaiser also notified these claimants of their ability to communicate with the Department regarding their arbitration case. Any delay in advising enrollees of their rights did not result in any harm to enrollees.

Kaiser has agreed to undertake the following measures to ensure that enrollees are effectively apprised of their rights: 1) If Kaiser receives an arbitration decision that omits the requisite DMHC disclaimer language, Kaiser will promptly request in writing modification of the decision and the claimant will be copied on such written request; 2) in its semimonthly submission of arbitration decisions, Kaiser will identify those decisions that omit the requisite DMHC language; and 3) such identification as previously described will serve as adequate notice to the Department that Kaiser has acted to request modification of the decision. These measures will ensure that all claimants are apprised of the DMHC disclaimer language.

The Department has determined that an administrative penalty of \$40,000.00 is warranted for violations of California Code of Regulations, title 28, section 1300.73.21, including timeliness of filing and omission of disclaimer language in arbitration decisions and settlement agreements, that may have occurred through the date of this Letter of Agreement. Kaiser accepts responsibility in this regard and has agreed to pay the penalty. Kaiser agrees to monitor and re-evaluate the corrective action agreed to herein and to develop an additional or modified corrective action plan as may be necessary.

Sincerely,



James F. Novello
Assistant Deputy Director
Office of Enforcement

Accepted by Kaiser Foundation Health Plan, Inc.

Paula C. O'Malley for Marlene S. Ma
Marlene S. Ma, Counsel
Kaiser Foundation Health Plan, Inc.

8/28/03
Date